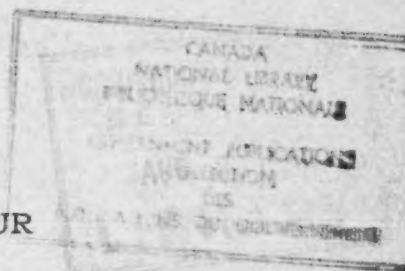


REPORT

ON THE

OPERATIONS OF
FLOUR-MILLING COMPANIES
IN CANADA

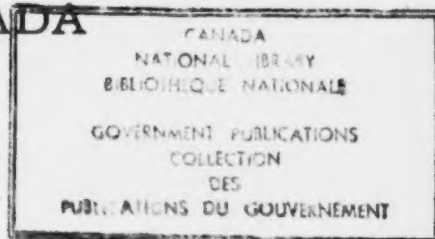
DEPARTMENT OF LABOUR



Issued by authority of the Minister of Labour

OTTAWA
J. DE LABROQUERIE TACHÉ
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1918

REPORT
ON THE
OPERATIONS OF
FLOUR-MILLING COMPANIES
IN CANADA



DEPARTMENT OF LABOUR

Issued by authority of the Minister of Labour

OTTAWA
J. DE LABROQUERIE TACHÉ
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1918

00925278

85 LABO

The Hon. T. W. CROTHERS, K.C.,
Minister of Labour,
Ottawa.

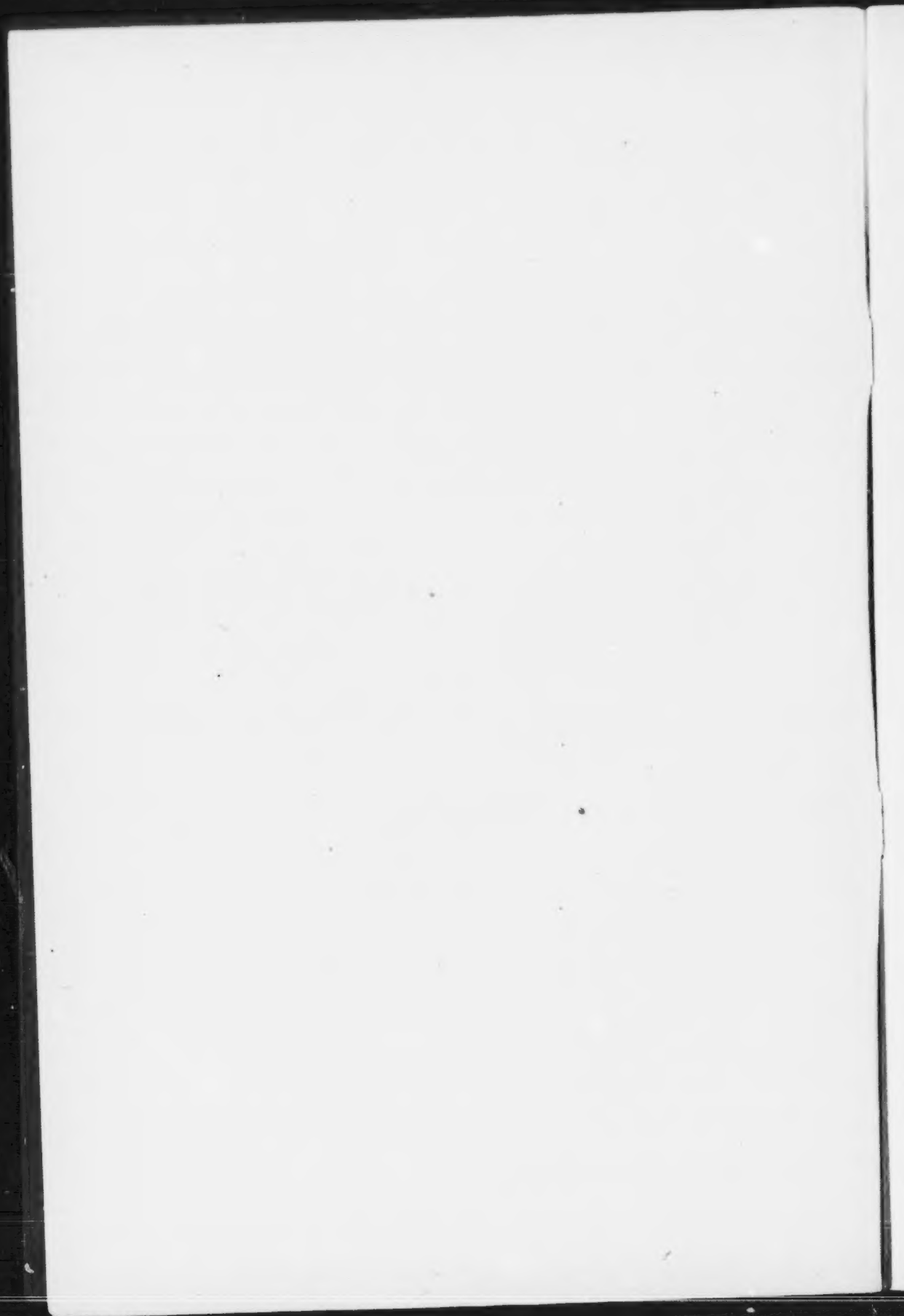
SIR,—I have the honour to submit to you a report, made at your request, on the operations of flour milling companies in Canada.

I have the honour to be, Sir,

Your obedient servant,

B. J. McKENNA,
(Mrs. GEORGE HAMBLETON)
Special Investigator,
Cost of Living Branch.

OTTAWA, May 2, 1918.



REPORT ON THE OPERATIONS OF FLOUR-MILLING COMPANIES IN CANADA.

This report covers the operations of all the milling companies in Canada producing 500,000 barrels of flour a year and over. This includes nine companies, namely, the Ogilvie Flour Mills Company, the Lake of the Woods Milling Company, the Western Canada Flour Mills Company, the Maple Leaf Milling Company, the St. Lawrence Flour Mills Company, the Dominion Flour Mills Company, the Robin Hood Flour Mills Company, the Quaker Oats Company, and the Campbell Flour Mills Company. The total production of flour of these nine companies in 1915 was between 70 and 75 per cent of the total production of flour in Canada. There are in all about 550 mills in Canada producing flour. The quantity produced by these nine companies forms this year probably a larger proportion of the total flour manufactured than was the case in 1915; as in war time the business of the large food companies increases much more rapidly than that of the smaller ones. The reports of six of these companies are analyzed in detail; those of the other three are not shown in detail, but have been used further to verify the conclusions in the last part of this report. In the drawing up of these conclusions the records of all the milling companies in Canada received in the Cost of Living Branch of your department have been considered in so far as they affect the summary at the end.

The supplying of the information required necessitated considerable effort on the part of the large milling companies which was, no doubt, at times inconvenient for those in charge of the direction of these companies. Nevertheless the information was supplied with the greatest courtesy and, I believe, frankness.

The primary purpose of the detailed investigation into the capitalization and profits of the milling companies of Canada was to discover the profit per barrel of flour made by the largest and most representative of the milling companies over an extended period of time and the net profit annually. For this purpose an exhaustive report was required from each company showing full details of capitalization and yearly revenue including the sources and disposal of the latter, and the amount of profit for each year, from the manufacture of wheat into flour, from trading in other lines such as the various meals, and from option trading in wheat. The trading in commodities other than those manufactured from flour is usually small in extent. Where other cereals are manufactured in considerable quantities the profit from such and operations connected with such are examined separately. The profits from the trading in option wheat were in many cases large particularly in the years 1915 and 1917, so large that it is essential that these be examined separately. This source of revenue is now cut off by fixing of the price of wheat. Not all the companies could show satisfactorily the profits from flour manufacture as distinct from these on dealings in wheat. The records of such companies are shown and analyzed separately and the profit per barrel of flour is calculated as derived from the total net revenue. Where this profit per barrel varies to any considerable extent from the normal profit for the given year as made by other companies the variance is accounted for as far as possible.

The profits per barrel of flour are calculated after all charges have been made and dividends payable thereby are shown after the deduction of a reserve to the surplus profits account. If there is, however, a sinking fund, the dividends payable are calculated after that reserve has been made. Where the amount set aside for the surplus

profits account was abnormal the dividends payable from the profit on a barrel of flour are calculated after a normal amount only is set aside, the difference between these two amounts being shown.

The information supplied by the different companies although quite satisfactory on the whole was varied according to the individual systems of accounting. The data supplied by no company was absolutely complete and each company had its own particular way of supplying the required information. Hence to arrive at the relation of the profit per barrel of flour to the profit on the year's business, an individual analysis of the returns of each of the large milling companies is necessitated.

Lack of uniformity in the systems of accounting is evident, particularly with regard to the Depreciation Reserve, the surplus profits account and the redemption of bonds. As the financial circumstances and financial history of each company varies no attempt has been made to analyze the returns of the various companies according to a uniform and rigid system, but to interpret the report of each company in such a way as to bring out the essential facts.

The return on capitalization supplied by the various companies shows exactly the position of the good-will account, that is the amount of common or preferred shares issued for good-will, trade patents, and the various other intangible assets usually recognized as good-will. For the purpose of this investigation good-will is not recognized as part of the net invested capital. For example, common shares to the extent of \$2,000,000 have been issued, \$1,000,000 for cash, \$500,000 for tangible assets and \$500,000 for good-will, the common stock capital is calculated as \$1,500,000. For the purposes of this report, therefore, total invested capital signifies the total amount in cash or assets received for common and for preferred shares, plus the amount at credit in the surplus profits account.

No uniform system of making a depreciation reserve was adopted by the milling companies. In some cases a general repairs account covered necessary repairs during the year, and funds were taken from the surplus profits account for reconstruction of plant at irregular intervals. In other cases a regular depreciation reserve was set aside, but such amount was too low. The Lake of the Woods Milling Company, for example, set aside only about 1½ per cent of value of the plant annually for depreciation; when reconstruction of the plant was necessary this company found that such an amount was too low. Other companies made no provision whatever for depreciation. In the years 1916 and 1917, however, a change took place. Plants, instead of being idle part of the year, were run to full capacity. The wear and tear on plant and machinery was greater. A depreciation account occurs for the first time in the Ogilvie Flour Mills Company's records in 1916, this was \$75,000; in 1917 a further reserve of about \$287,000 was made; the Lake of the Woods Company took from the year's profits, in 1917, \$111,000 for reconstruction of one of its mills and in almost all cases the depreciation account in 1917 was two, three, or four times greater than that of any previous year. This greatly reduces the apparent profits. Such depreciation reserves as were made by milling companies before 1917 were about 2 per cent of the value of the plant. In nearly every case these were increased to 5 per cent in 1917. This advance from 2 to 5 per cent reduces the taxable profits by large amounts, increasing with the size of the company and value of its plant.

The method of making up the surplus profits account is very irregular. This account is a reserve made up of the accruments of the annual profits after all charges have been paid and after provision has been made for dividends. It varies with each company. It varies from year to year with individual companies. Even where there is a good accounting system, no provision is made in some years for depreciation and in other years an abnormal amount is set aside for this purpose.

Certain companies have opened up contingent accounts as a result of large profits made since the war. Such contingent accounts are in reality merely surplus profits accounts. In this report they are treated as such. The interpretation of this account

is also affected by the provision for redemption of bonds. Some companies have a sinking fund for the redemption of bonds and a certain specified amount is set aside each year. Other well established companies have no sinking fund for the redemption of bonds but build up their surplus profits accounts from which the bonds will be redeemed when due. The Ogilvie Flour Mills Company has no sinking fund but its surplus profits account already more than covers the bonds issued although these do not fall due until 1932. The Western Canada Flour Mills Company has a regular sinking fund in addition to its surplus profits account. The Lake of the Woods Milling Company redeems its bonds from time to time from its surplus profits.

THE OGILVIE FLOUR MILLS COMPANY.

This company, because of the magnitude of its operations, is one of three or four largest manufacturing concerns in Canada and viewed from the standpoint of a national industry is comparable with the Nova Scotia Steel Company and as a milling concern is a worthy competitor of the largest American companies. The daily maximum capacity is 17,000 barrels. The average daily capacity is 14,450 barrels of flour.

CAPITALIZATION.

	Authorized.	Issued.	Fully paid.
Preferred shares.....	\$2,000,000	\$2,000,000	\$2,000,000
Common shares.....	2,500,000	2,500,000	2,500,000
Bonds and debentures.....	2,350,000	2,350,000	2,450,000

The capitalization of this company is made up in the following way: Preferred shares amounting to \$2,000,000 were issued for cash of the same amount. Of the common shares \$2,500,000—\$1,250,000 were issued for cash and \$1,250,000 for good-will. This good-will account was wiped out in 1913 except for the nominal amount of \$1 by the payment of \$830,304 "an increase in valuation of properties (after writing off the cost of operations and all Patent Rights) transferred to capital surplus account" and of \$169,696 made up of \$37,960 surplus profits account as it stood at the beginning of the company's fiscal year 1913 and \$131,736 from net profit of that year. The dividends for the years 1913 to 1917 were as follows:—

RATE OF DIVIDENDS.

	1911.	1912.	1913.	1914.	1915.	1916.	1917.
Preferred shares per cent.	7	7	7	7	7	7	7
Common shares "	8	8	8	8	8	12	25

The preferred shares dividends for each year from 1913 to 1917 amounted to \$140,000.

The common shares dividends amounted in 1911 to \$200,000; in 1912 to \$200,000; in 1913 to \$200,000; in 1914 to \$200,000; in 1915 to \$200,000; in 1916 to \$300,000; and in 1917 to \$625,000.

The dividends on preferred shares have been cumulative and are 7 per cent throughout. There is no interest on preferred shares in arrears. The surplus profits account is cumulative and shows the following accumulations by date:—

	Surplus profits.	Contingent accounts.
1911	\$ 434,052	
1912	510,483	
1913	472,523	
1914	582,467	
1915	1,762,061	\$1,250,000
1916	2,096,331	1,250,000
1917	2,690,177	2,500,000

The surplus profits account has increased from \$472,523 in 1913 to \$2,690,177 in 1917. A detailed analysis further down will show the amount of surplus profits made

DEPARTMENT OF LABOUR

from the manufacture of flour and the dealings in wheat separately. In 1915 a contingent account was opened up with a total of \$1,250,000 to which the profit from dealings in wheat of that year largely contributed. In 1917 a large part of the surplus profits account was added to the contingent account making the total of the contingent account \$2,500,000. Of the total net profit of approximately \$1,360,000 (after deduction of War Tax) made by the company in the fiscal year 1917, over \$600,000 was contributed by dealings in wheat and sources of revenue other than the manufacture of flour. Aside from these two very large items made from sources other than the manufacture of flour, very substantial and increased profits have been made on flour by the company.

Following is shown the total sales in dollars for each of the fiscal years 1913 to 1917, inclusive, the net profit available for dividends and the proportion of such to the total sales.

	Total sales.	Net profit available for dividends (1916 and 1917 war-tax deducted).
1913	\$18,454,169	\$ 471,735 or 2.55 per cent.
1914	18,336,050	449,944 or 2.45 "
1915	20,189,080	459,780 or 2.28* "
		1,059,813 or 5.24† "
Total, 1915	\$31,994,650	\$1,519,593 or 7.52 per cent.
1916	50,531,506	\$ 774,270 or 2.42 "
1917		721,038 or 1.43* "
		637,809 or 1.26† "
Total, 1917		\$1,358,847 or 2.69 per cent.

*Flour. † Wheat dealings and other sources.

Thus the rate of profit on total sales has increased but little—limiting the profit per unit of the commodity will not materially decrease the profit on the year's business. That is to say the quickly accumulating profits of the milling business are not made by increasing the profits on a barrel of flour or a bushel of wheat and will not be reached by limiting the profit per barrel of flour or per bushel of wheat; they are made from the vastly increased sales—this company's have nearly trebled since the war—and this profit can only be reached by taxing the net profits on the year's business.

The net profit available for dividends 1913-1917:—

1913	\$ 471,735
1914	449,944
1915	1,519,593
1916	774,270*
1917	1,358,847*

*After deduction of war-tax.

This statement of profits must be modified by the following considerations: (1) There is no sinking fund for bonds. The redemption of bonds would amount to considerably less than \$110,000 a year (which is approximately the amount added to surplus profits account in each of the years 1914 and 1915). Thus part of the surplus profits yearly reserve may be regarded as a bond redemption account. (2) The provision for depreciation. There is annually an amount set aside for repairs. In 1916, \$75,000 in addition was set aside for depreciation and in 1917 the unusually large amount of \$286,860. This is about 5 per cent of the value of the plant and real estate as shown on the annual statement, and is much higher than for previous years. This may be partially justified on the plea of increased production, yet there had not been previous to 1916 a special depreciation account; and the amount set aside in 1917 was more than \$210,000 in excess of that set aside in 1916; while the general account in which repairs were included increased from \$724,000 in 1913 to \$1,177,000 in 1917. This depreciation account would therefore appear partially in the character of a reserve profits account. (3) War Tax. The war tax is subtracted from the net

REVENUE, 1914.—Continued

Rate of profit—		\$ 449,944
Net profit available for dividends	\$4,500,000	
Capital	472,523	
Surplus profits account		
On total investment (9.41 per cent).	\$4,972,523	

Profit per barrel of flour and dividends on common stock payable thereby

Total net profit from flour, \$395,882.
Total flour and other cereals produced, 2,772,845 barrels
Profit per barrel, 14.54 cents

After paying the dividend on preferred shares, \$140,000, and setting aside for surplus profits \$109,944, the remainder, \$145,938, would amount to 5.84 per cent on common stock.

REVENUE 1915

Total sales	\$20,189,980
Net profit available for dividends	1,519,593
Disposed—Dividends on preferred shares (7 per cent) ..	140,000
" common " (8 per cent) ..	200,000
Added to surplus profits account	1,179,593
	<u>1,519,593</u>
Derived—From flour manufacture	421,547
" revenue from elevators	38,233
" dealings in wheat	1,059,813
	<u>1,519,593</u>
Rate of profit—Capital	\$4,500,000
Surplus profits	582,466
On total investment... (30 per cent) ..	<u>\$5,082,466</u>

Profit per barrel of flour and dividends on common stock payable thereby. -

Total net profit from flour, \$421,547
Total flour and other cereals produced, 2,236,727 barrels
Profit per barrel, 18.84 cents

After paying the dividend on preferred shares, \$140,000, and setting aside for surplus profits \$119,781, the remainder, \$161,706, would amount to 6.5 per cent on common stock.

NOTE.—The Surplus Profits Account including the contingent Account at the end of the fiscal year is \$1,762,060 an increase of \$1,179,594 over 1914. Of this \$119,781 was contributed by profits on flour and \$1,059,813 was contributed by profits upon dealings in wheat. It is a tremendous profit on wheat dealings which made the rate of profit on the invested capital so large. The rate of profit on the investment in flour manufacture was normal. The exact figures were 18.84 cents per barrel profit which would pay, all charges remaining the same, 6.47 per cent on common stock.

REVENUE 1916.

NOTE.—The profit available for dividends in 1916 and 1917 is not the same as the net profit because provision for war-tax is made out of the net profit for 1916 and 1917. In 1916 there was set aside out of the net profit \$280,866 as provision for war-tax for 1915, and \$89,375 as provision for war-tax in 1916.

	\$ 774,270
Net profit available for dividends (after deducting war-tax)....	
Disposed—Dividends on preferred shares (7 per cent) .. \$ 140,000	
" " common " (12 per cent) .. 300,000	
Added to surplus profits account 334,270	
Total	<u>\$ 774,270</u>

FLOUR-MILLING COMPANIES

11

REVENUE, 1916.—Continued.

Derived—From flour manufacture	\$ 619,496
" revenue from elevators	154,774
Total	\$ 774,270
Rate of profit—	
Net profit available for dividends	\$ 774,270
War-tax reserve	380,261
Total net profit	\$1,154,531
On capital	\$4,500,000
Surplus profits	1,762,061
On total invested capital (17 per cent).	\$6,262,061

Profit per barrel of flour and dividends on common stock payable thereby (after deducting depreciation reserve and war-tax reserve).

Total net profit from flour, \$619,496.
Total flour and other cereals produced, 3,456,094 barrels
Profit per barrel, 17.92 cents

After paying the dividend on preferred shares, \$140,000, and setting aside \$110,000 to the surplus profits account, the remainder, \$369,496, would amount to 14.78 per cent on the common stock.

It will be observed that the calculation of the profit on common stock from the profit per barrel of 17.92 cents per barrel is arrived at in a different way from that of previous years. For 1914 and 1915 the profit on common stock was calculated from the amount left after subtracting the dividend on preferred shares and the amount set aside for the surplus profits account from the net profit derived from the manufacture of flour. In 1916 of the flour milling profits \$334,270 was added to the surplus profits account. But as explained above \$110,000 is a sufficient amount to cover bond redemption; hence for the purposes of calculating the relation of the profit per barrel of flour to common shares dividends \$110,000 may justly be set aside each year to the surplus profits account. (Any amount in excess of this is pure profit and may justly be distributed as such on common shares.) Hence that amount instead of \$334,270 is subtracted from milling profits to discover the rate payable on common shares when 17.92 cents a barrel profit is made.

REVENUE, 1917.

Total sales	\$50,531,506
Net profit available for dividends (after deducting war-tax)	1,358,847
Disposed—Preferred shares (7 per cent). \$140,000	
Common " (25 per cent). 625,000	
Added to surplus profits account (\$190,177 surplus profits account, \$403,670 contingent account)	593,847
Total	\$ 1,358,847
Derived—From flour manufacture	\$721,038
From sources other than milling, chiefly dealings in wheat	637,809
Total	\$ 1,358,847

NOTE.—It is observed that for 1917 the elevator profits are not shown separately but the main purpose is achieved i.e., the separation of revenue from flour, and that derived otherwise chiefly dealings in wheat.

Rate of profit—	
Net profit available for dividends	\$1,358,847
War-tax reserve	750,000
Total net profit	\$2,108,847
Capital	\$4,500,000
Surplus profits account	2,096,177
On total invested capital (32 per cent).	\$6,596,177

DEPARTMENT OF LABOUR

NOTE.—If the unusual depreciation reserve which has already been computed above of \$286,860 were added to this the rate of profit would be increased but as there is a certain justification for unusually large reserves in war time this depreciation account has not been added to the net profits.

Profit per barrel of flour and dividends on common shares payable thereby. (This is calculated after depreciation reserve and war-tax reserves have been made):

Total net profit from flour, \$721,038
Total flour and other cereals produced, 3,548,000 barrels
Profit per barrel, 20.32 cents

After paying the dividend on preferred shares, and setting aside \$110,000 to the surplus profits account, the remainder, \$471,038, would amount to 19.24 per cent on the common stock.

SUMMARY OF REPORT OF OGILVIE FLOUR MILLS COMPANY.

The above report shows that the sales of this company have increased from \$18,500,000 in 1913 to over \$50,000,000 in 1917, that is they have nearly trebled. The number of barrels of flour produced increased from 2,500,000 barrels in 1913 to more than 3,500,000 barrels in 1917. The net profits from 1913 to 1917 were approximately \$470,000 in 1913; \$450,000 in 1914; \$1,500,000 in 1915; \$1,150,000 in 1916 (before deducting war-tax) and over \$2,100,000 in 1917 (before deducting war tax). Out of the profits for 1916 and 1917 a total reserve of about \$1,130,000 was set aside for war-tax and a new depreciation account amounting in 1917 to a total of about \$360,000 was opened up in 1916. The surplus profits account increased from approximately \$473,000 in 1913 to \$2,690,000 in 1917. Of these huge profits about \$1,700,000 was contributed by gains made from dealings in wheat in 1915 and 1917.

Aside from this, however, the profits on flour have been very substantial as shown by the above report. The profit per barrel has increased from year to year excepting 1916 when an apparent drop took place in that year. The profits per barrel on flour in 1913 were approximately 14 cents; in 1914, 14.54 cents; in 1915, 18.84 cents; in 1916, 17.92 cents; in 1917 they were 20.32 cents. All other charges remaining the same, except that the reserve of \$110,000 to the surplus profits account in 1916 and 1917 was made instead of the reserves already shown, the rates on common stock payable from the above profits per barrel of flour annually are as follows: 5.84 per cent in 1914; 6.47 per cent in 1915; 14.78 per cent in 1916; 19.24 per cent in 1917. Thus the profit per barrel of flour has increased from 1914 to 1917 by 39 per cent. The dividend payable thereby on common stock has increased three and a third times. If the profit per barrel of flour had remained the same as in 1914, namely, 14½ cents per barrel the dividends would still have been very considerable; they would, in fact, have amounted to 11½ per cent on common stock. This is obviously due to the increased production. If, on the other hand the production had dropped to say one-half of the production in 1913, 50 cents per barrel profit might not have paid all the extra charges due to the war and even a very modest dividend on common stock. This is conclusive evidence of the fact that the fixing of the profit on this commodity is so obviously affected by the various conditions of trade that it is an extremely uncertain way of limiting profits.

It is further almost impossible to set the profit on the unit quantity dealt with of any commodity such as above—flour—unless a very rigid and uniform system of costs accounting is adopted. For example, this company calculates its profit per barrel of flour after all charges for the year have been made. The depreciation account has already been criticised. This profit per barrel of flour for 1916 and 1917 is calculated after the war-tax reserve has been made. The next largest company in Canada had calculated its profit per barrel of flour before the war tax reserve was made. These obvious differences are only examples of other variations in the calculation of profit per unit which takes place.

The uniform demands made by the Minister of Labour under authority of Order in Council No. 2777 of November 10, 1916, are gradually bringing the milling companies into line, although the work of bringing unwieldy cost accounting systems in some cases, and in every case varying systems to a uniform basis has been very slow and difficult.

LAKE OF THE WOODS MILLING COMPANY.

The Lake of the Woods Milling Company is the second milling company in point of magnitude in the Dominion. The full daily capacity of this milling company is 14,500 barrels. That of the Ogilvie Flour Mills Company is 17,000.

The Lake of the Woods Milling Company owns two other milling concerns, the Keewatin Flour Mills Company and the Medicine Hat Milling Company. The financial records of the former of these two concerns are kept separate in some accounts, but are incorporated in others. This slightly complicates the matter; the total revenue for each year is shown covering the entire business, and the profit per barrel of flour calculated on the entire output. The Lake of the Woods Company proper has no regular sinking fund. Bond redemptions are made irregularly from time to time from the surplus profits reserve. For the Keewatin Flour Mills a comparatively large amount is set aside annually nominally as rental, but in reality to cover bond interest, depreciation and for redemption of bonds, where a distinction of these accounts has been deemed necessary for the purpose of greater clearness such as has been made.

CAPITALIZATION.

	Authorized.	Issued.	Fully paid.
Preferred shares	\$1,500,000	\$1,500,000	\$1,500,000
Common shares	2,500,000	2,100,000	2,100,000
Bonds and debentures	1,000,000	700,000	700,000

NOTE.—In 1911, bonds issued and fully paid were \$1,000,000. In 1912 these were reduced by \$100,000. In 1916 they were again reduced by \$200,000. The Keewatin Flour Mills Company was taken over by the Lake of the Woods Company in 1906, and additional bonds were issued and fully paid to the extent of \$750,000. In 1916, \$350,000 worth of these bonds were redeemed. The remainder, \$400,000, was converted into a bank loan.

The capitalization of the Lake of the Woods Company is made up as follows: Of common and preferred shares, \$2,600,000 were issued for cash and assets; of the remainder \$993,335, or approximately \$1,000,000, was issued for good-will. This good-will account is now reduced to \$550,000; \$50,000 is paid off the account annually from 1911 to 1917, inclusive, from the surplus profits account.

RATE OF DIVIDENDS.

	1911.	1912.	1913.	1914.	1915.	1916.	1917.
Preferred shares per cent.	7	7	7	7	7	7	7
Common shares "	8	8	10	8	8	8	8

The preferred shares dividends for each year from 1913 to 1917 amounted to \$140,000.

The common shares dividends amounted, in 1911, to \$168,000, in 1912 to \$168,000, in 1913 to \$210,000, in 1914 to \$168,000, in 1915 to \$168,000, in 1916 to \$168,000, in 1917 to \$168,000.

The interest on preferred shares is 7 per cent and is cumulative. There is no interest on preferred shares in arrears.

The profits from the Keewatin Flour Mills are not incorporated in the surplus profits account of this company, but were previous to 1916 applied as reserve for redemption of bonds of the Keewatin Flour Mills. These profits accumulating since

DEPARTMENT OF LABOUR

1906 were particularly large in the years 1915 and 1916. The original issue of bonds was \$750,000. In 1916, from the accumulated profits, bonds to the extent of \$350,000 were redeemed.

The interpretation of the surplus profits account is affected by the following considerations:—

(1) There is no regular bond redemption account, but in the years 1912 and 1917 the following redemption of bonds took place from the surplus profits reserve. In 1912, \$100,000, in 1917, \$200,000. This redemption of bonds is, of course, advisable, and as there is not a regular sinking fund, the redemption of bonds usually takes place in years when there is an unusually large profit. The addition to the surplus profits account in 1917 is, therefore, much smaller than it otherwise would be.

(2) \$50,000 is annually paid off the good-will account. This \$50,000 is taken from the surplus profits each year.

(3) \$50,000 is annually paid from the surplus profits to depreciation. This is one and two-thirds per cent per annum depreciation, the value of real estate, building, and machinery being approximately \$3,000,000. The rate is unusually low. In 1917 from the surplus profits reserve \$110,000 was taken for the reconstruction of the Medicine Hat mill. If a larger reservation had been made for depreciation, each year, this amount would be more than covered by such account. In view of this fact, the unusually large depreciation reserve of \$161,000 in 1917 is justifiable, although it reduced the profits of that year disproportionately as compared with former years.

(4) The amount taken from the surplus profits account to provide for war tax from the profits of the years 1916 and 1917 was in 1916 \$42,448, and in 1917 \$32,255.

The surplus profits have in reality increased considerably, although not apparently so. The surplus profits account is shown cumulatively.

	Lake of the Woods Co.	Keewatin Flour Mills Co.
1911	\$857,457	
1912	817,458	
1913	853,135	
1914	889,074	
1915	935,994	
1916	889,135	\$212,599
1917	831,883	392,364

Thus the surplus profits account has really increased from 1913 to 1917:—

Bonds paid off in cash	\$200,000
Good-will account paid off in cash	250,000
	\$450,000
Less difference between amount shown to credit of surplus profits account in 1917 and amount shown to credit in 1913, \$853,135 minus \$831,883	21,252
	\$428,748
Keewatin surplus profits account, 1917	392,364
	\$821,112

As in the case of the Ogilvie Flour Mills Company the credit of the surplus profits account more than covers the bonds now outstanding and not due until 1923.

TOTAL SALES	
1913	\$11,868,317
1914	12,654,117
1915	13,848,144
1916	18,071,572
1917	22,702,685

In the period since the war the total sales of this company have doubled. The years 1913 and 1914 show a gradual increase. In 1916 and 1917 both the sales and the profits were unusually large. In these two years the increase in sales as with the other companies analyzed is due to the vastly increased amount of flour exported.

FLOUR-MILLING COMPANIES

15

NET PROFITS available for dividends and per cent profit on total sales.

		Per cent.
1913	\$335,766	2.83
1914	293,988	2.32
1915	475,025	3.43
1916	452,131	2.61*
1917	618,258	2.72†

*After payment of war-tax.

†After payment of war-tax and \$110,000 for reconstruction.

The net profit for 1917 is composed:

Seven hundred and sixty-one thousand five hundred and thirteen dollars less \$110,000 the amount written off for Medicine Hat mill reconstruction, less \$32,255 for war-tax. It will be observed that although the profit in 1917 is almost double the profit in 1913, the percentage profit on the turn-over has actually decreased. The profits from sources other than flour were not very considerable in any year except 1917 and in no year do they compare with the profits of the Ogilvie Flour Mills Company in the years 1915 and 1917. Following is shown the revenue derived from the manufacture of flour compared with revenue from other sources. As pointed out several times, the large factor in revenue from other sources is wheat dealings.

1913—Flour	\$285,766
Other sources	50,000
	\$335,766
1914—Flour	\$258,988
Other sources	35,000
	\$293,988
1915—Flour	\$415,025
Other sources	60,000
	\$475,025
1916—Flour	\$416,575
Other sources	78,000
	\$494,575
1917—Flour	\$456,513
Other sources	194,000
	\$650,513

This profit for 1916 and 1917 includes war-tax.

The net profits available for dividends as previously shown include the profits from the Keewatin Flour Mills Company. The net profits available for dividends as shown in the annual statement do not include the latter.

The net profits available for dividends 1913-1917 were:—

1913	\$335,766
1914	293,988
1915	475,025
1916	452,131*
1917	618,258†

*\$494,579—\$42,448 war-tax.

†\$761,513—\$111,000 reconstruction expenses, \$32,255 war-tax.

The interpretation of these profits must be affected by the following considerations: (1) Out of the gross profits \$50,000 is taken annually to redeem watered stock amounting originally to \$1,000,000. (2) The depreciation account is somewhat too low—it amounts approximately to one and two-thirds per cent—a depreciation reserve of at least 2 per cent would be justified, an increase of \$10,000 a year. (3) \$111,000 of the surplus profits in 1917 were applied to reconstruct the Medicine Hat Plant.

FLOUR-MILLING COMPANIES

17

After paying the dividend on preferred shares, \$105,000, and setting aside for surplus profits \$35,677 and \$50,000 to pay off watered stock, the remainder, \$145,088, would amount to about 7 per cent on common stock.

REVENUE, 1914

Total sales	\$12,654,117	
Net profit available for dividends	293,988	
Lake of Woods net profit	\$308,939	
Less Keewatin mills loss after deducting depreciation reserve	14,951	
Net profit for year	293,988	
Disposed—Lake of the Woods profit	\$308,939	
Dividend on preferred shares (7 per cent) ..	\$105,000	
" common " (8 per cent) ..	168,000	
Transferred to surplus profits account ..	35,939	
Total	\$308,939	
Derived—From flour manufacture	\$258,988	
From sources other than milling	35,000	
Total	\$293,988	
Rate of profit—The net profit before paying \$50,000 off good-will account was ..	\$343,988	
Net profit available for dividends	\$ 343,988	
Capital	2,850,000	
Preferred shares	\$1,500,000	
Common shares	2,100,000	
	\$3,600,000	
Less good-will	750,000	
	\$2,850,000	
Surplus profits	853,000	
Total invested capital	2,793,000	

Profit per barrel of flour and dividends on common stock payable thereby (after deducting amount paid off good-will account).

The cereals manufactured other than flour are comparatively small in quantity.

Total net profit from flour and other cereals, \$258,988
Total flour and other cereals produced, 2,020,000 barrels.
Profit per barrel, 12.82 cents.

After paying the dividend on preferred shares, \$105,000, and setting aside for surplus profits \$35,939 and \$50,000 to pay off watered stock, the remainder, \$118,949, would amount to 5.7 per cent on common stock.

REVENUE, 1915.

Total sales	\$13,848,144	
Net profit available for dividends	475,025	
Lake of the Woods net profit	\$319,920	
Keewatin mills net profit, after deducting depreciation reserve	155,105	
Total net profit for year	475,025	
Disposed—Lake of Woods profit	\$319,920	
Dividend on preferred shares.. (7 per cent) ..	\$105,000	
" common " .. (8 per cent) ..	168,000	
Added to surplus profits account	46,920	
Total	319,920	
Derived—From flour manufacture	\$415,025	
From sources other than milling	60,000	
Total	\$475,025	
Rate of profit: The net profit before paying \$50,000 off the good-will account was ..	\$525,025	

DEPARTMENT OF LABOUR

REVENUE, 1915.—Continued

Net profit available for dividends	\$	889,000
On capital		2,820,000
Preferred shares	\$1,500,000	
Common shares	2,100,000	
	<u>\$3,600,000</u>	
Less good-will	700,000	
	<u>\$2,900,000</u>	
Surplus profits		889,000
On total invested capital	(13.9 per cent).	3,789,000

Profit per barrel of flour and dividends on common stock payable thereby after deducting amount paid off the good-will account.

Total net profit from flour and other cereals, \$415,025
 Total flour and other cereals produced, 1,788,800 barrels
 Profit per barrel of flour, 23.01 cents

After paying the dividend on preferred shares, \$105,000, and setting aside to the surplus profits account \$46,920, the remainder, \$263,105, would amount to about 12.49 per cent on common stock.

REVENUE, 1916.

Total sales	\$18,071,572
Net profit available for dividends (before deducting war-tax) ..	\$452,131
Lake of Woods net profit	\$326,141
Keewatin net profits, after deducting depreciation reserve	168,438
	<u>\$494,579</u>
Less war-tax	42,448
Total net profit for year	<u>\$452,131</u>
Disposed—Lake of Woods net profit, before deducting war-tax ..	\$326,141
Dividend on preferred shares (7 per cent) ..	\$105,000
" common " (8 per cent) ..	168,000
Added to surplus profits account	53,141
Total	<u>\$426,141</u>
Derived—Net profit from flour manufacture	\$374,131
" other sources	78,000
	<u>\$452,131</u>
Rate of profit—The net profit before paying off \$50,000 from good-will account and before paying war-tax (\$452,131 plus \$42,448, plus \$50,000) was	\$544,579
On capital	\$2,850,000
Preferred shares	\$1,500,000
Common shares	2,100,000
	<u>\$3,600,000</u>
Less good-will	750,000
	<u>\$2,850,000</u>
Surplus profits	246,000
On total invested capital	(14 per cent). \$3,886,000

Profit per barrel of flour and dividends on common stock payable thereby after deducting amount paid off good-will account and war tax.

Total net profit from flour and cereals, \$374,131
 Total flour and other cereals produced, 2,584,000 barrels
 Profit per barrel, 14.5 cents

After paying the dividend on preferred shares, \$105,000, and setting aside to the surplus profits account \$53,141, the remainder, \$215,990, would pay about 10.3 per cent on common stock.

FLOUR-MILLING COMPANIES

19

REVENUE, 1917

Total sales	\$22,720,085	
Net profit available for dividends, after \$111,000 has been absorbed for reconstruction of Medicine Hat milling plant (after deduction of war-tax)	618,258	
Composed—Lake of Woods net profit	\$ 55,000	
Less war-tax reserve (nominal)	111,000	
reconstruction	\$168,000	
Total	415,748	
Net profit Lake of Woods, including war-tax reserve, \$55,000, and after paying off reconstruction costs	\$470,748	
Net profit Keewatin Flour Mills, after deducting depreciation reserve	170,766	
	\$650,513	
Less war-tax (actual)	32,255	
Total net profit for year	\$618,258	\$618,258
Lake of Woods profit		
Disposed—Dividend on preferred shares (7 per cent)	\$105,000	
common " (8 per cent)	168,000	
Added to surplus profits account	142,748	
Total	415,748	
Derived—From flour manufacture, after deducting \$111,000 for reconstruction of Medicine Hat plant	\$456,513	
From sources other than milling	194,000	
Total	\$650,513	
Less war-tax	32,255	
	\$618,258	
Rate of profit—Net profit, before paying \$50,000 off the good-will account and before paying war-tax (\$618,258 plus \$32,255, plus \$50,000), was:—		
Total net profit	\$ 700,513	
On capital	2,000,000	
Preferred shares	\$1,500,000	
Common shares	2,100,000	
	\$3,600,000	
Less good-will	600,000	
	\$3,000,000	
Surplus profits	889,000	
On total invested capital (18 per cent)	3,889,000	

Profit per barrel of flour and dividends on common stock payable thereby after deducting amount paid off good-will account and \$111,000 for reconstruction of plant and war-tax (\$456,513-\$32,255).

Total net profit from flour, \$424,258
Total flour and other cereals produced, 2,102,400 barrels
Profit per barrel, 20 cents

After paying the dividend on preferred shares, \$105,000, and setting aside \$42,910 to surplus profits account instead of \$142,748 which was set aside, and deducting the war tax, \$32,255, the remainder, \$276,339, would pay about 13 per cent on common stock. The reserve of \$42,910 is the average of the reserve set aside annually during the period 1913 to 1916. The amount set aside to surplus profits account in 1917 was unusually large and might justly have been applied to dividends.

The disposal of accruing surplus profits from the Keewatin Flour Mills Company is not analyzed in detail above. It is sufficient to state that after due depreciation and other charges had been paid the profits from the operations of this mill were used to redeem bonds to the extent of \$350,000 in 1916 and that the amount to the credit of the surplus profits account was \$212,599 in 1916 and \$392,364 in 1917.

DEPARTMENT OF LABOUR

SUMMARY OF THE REPORT OF THE LAKE OF THE WOODS MILLING COMPANY.

The Lake of the Woods Milling Company at the beginning of the period which this investigation covers had stock, common and preferred, issued amounting to \$2,600,000; of this \$800,000 was good-will. The original amount of this account was one million dollars. It was reduced at the end of the fiscal year 1917 to \$550,000. Dividends are paid annually on such of this watered stock as is still outstanding. The common custom is followed of paying off this account from the surplus profits account each year. In this way, all the stock issued will finally represent full value in either cash or tangible assets. It does not do so at present. As explained above the rate of profit has been worked out on actual capital, exclusive of good-will.

The total net investigated capital of the company, 1913 to 1917, was: \$3,617,000 in 1913; \$3,703,000 in 1914; \$3,789,000 in 1915; \$3,886,000 in 1916; and \$3,889,000 in 1917. The total net profits for each year, before deducting \$50,000 to validate watered stock and before deducting war tax in 1916 and 1917, were \$385,766 in 1913; \$343,988 in 1914; \$525,025 in 1915; \$544,579 in 1916; and \$700,513 in 1917. The depreciation reserve was somewhat too low previous to 1917, but the unusually large reserve for depreciation and reconstruction in 1917 of \$161,000 was deducted from 1917 profits thus making the total depreciation reserve, covering this period, more equitable.

The net profit per cent on the total investment, calculated on the above figures, was 10.7 per cent in 1913; 9.3 per cent in 1914; 13.9 per cent in 1915; 14 per cent in 1916, and 18 per cent in 1917.

The surplus profits account was \$853,135 in 1913; in 1917 there was \$831,883 to the credit of the Lake of the Woods account plus \$392,364 to the credit of the Keewatin surplus account. In addition to this, \$550,000 of bonds were redeemed during this period; \$250,000 watered stock was redeemed and \$74,703 reserve was made for war tax. Thus after all dividends were paid and all charges made, the surplus profits were increased from 1913 to 1917 by more than one million dollars, although \$800,000 of these surplus profits went for redemption of bonds and good-will account.

This company is the second largest milling company in Canada but its sales and production have not increased so rapidly since the war as the first company dealt with. Its growth has been more intermittent. The number of barrels of flour produced was approximately:

	Barrels
1913	1,900,000
1914	2,000,000
1915	1,800,000
1916	2,600,000
1917	2,100,000

The receipts from all sales were slightly less than \$12,000,000 in 1913 and almost \$23,000,000 in 1917, that is they have nearly doubled, while those of the largest company have nearly trebled.

The profits from sources other than the manufacture of flour, chiefly wheat dealing, form comparatively small proportions of the net profits of this company except in 1917. Dealing in wheat for the purpose of making profit on the re-sale of such has not been an important feature of the operations of this company. The profits from option dealing in wheat and from sources other than the manufacture of flour were \$50,000 in 1913, \$35,000 in 1914, \$60,000 in 1915, \$78,000 in 1916, and \$194,000 in 1917. In the latter part of 1916 and the early part of 1917, this company, as was the case with most of the wheat dealing companies made very large profits through the rise in the price of the wheat which they held.

The profit per barrel of flour has increased from 15 cents in 1913 to 20 cents in 1917, while the production has also increased. In 1913, there were 1,900,000 barrels of flour and other cereals produced at a profit of 15 cents a barrel; in 1914, there were 2,000,000 produced at a profit of 13 cents a barrel; in 1915, there were 1,800,000 barrels produced at a profit of 23 cents a barrel; in 1916, the maximum production of

2,600,000 barrels was reached at a profit, after paying war-tax, of 14½ cents per barrel. In 1917, there were 2,100,000 barrels produced at a profit, after paying war-tax, of 20 cents a barrel. After paying all charges, and making the same reserve each year to the surplus profits account except in 1917 when the latter was unusually large, the above-mentioned profits per barrel of flour, exclusive of other sources of revenue would pay the following dividends on common stock: 1913, 7 per cent; 1914, 5.7 per cent; 1915, 12.5 per cent; 10.3 per cent in 1916, 13 per cent in 1917. Fifteen cents a barrel profit was sufficient to pay seven per cent dividends on common stock before the war with ample reserves; 14.5 cents a barrel profit in 1916 was sufficient to pay all charges including war-tax and make an unusually large surplus profits reserve and distribute 10.3 per cent on common stock. Still the profit increased in 1917 to 20 cents a barrel.

WESTERN CANADA FLOUR MILLS COMPANY.

The Western Canada Flour Mills Company, the Maple Leaf Milling Company and the St. Lawrence Flour Mills Company do not show separately the revenue from the dealings in wheat and the revenue from the manufacture of flour. This does not seriously affect the calculations of the yearly profit per barrel of flour except when the dealings in wheat become so distinct from the buying of wheat for the manufacture of flour that they considerably affect the yearly dividends. During the period covered by this report, the Ogilvie Flour Mills Company shows the revenue from the dealings in wheat quite distinct from the other sources of revenue. The Lake of the Woods Milling Company's dealings in wheat in the year 1917 greatly increased the profits. The profits of this company from such dealings in previous years was not considerable.

Profits per barrel of flour, as shown by the Western Canada Flour Mills Company are somewhat higher than they would be were the profit from option trading in wheat shown separately. There were no spectacular deals in wheat by this company. Although there was a considerable amount of option trading, yet the profits or losses from such trading bore so strictly on the actual cost of wheat for flour manufacture that the fact of the revenue from flour and the revenue from wheat dealings not being shown separately does not affect seriously the accuracy of the return made by the company. The net result is that the profit per barrel of flour as shown in its statement is somewhat higher than it would be had the profits from other sources been segregated. The difference so caused would not amount to more than two cents per barrel for any of these years. Figures submitted by this company showing profits per barrel of flour per annum were incorrect in that the bond interest was not deducted. The necessary correction has been made.

CAPITALIZATION.

	Authorized.	Issued.	Fully paid
Preferred shares	None		
Common shares	\$2,500,000	\$2,124,700	\$2,124,700
		(Until 1914, \$1,500,000)	
Bonds and debentures	\$2,500,000	\$1,845,000	\$1,845,000
The capitalization of this company is made up:			
Common shares issued for cash			\$1,246,747
" " " good-will			182,955
" " " assets			695,000
			\$2,124,700
Bonds issued for cash			\$1,695,675

Dividends: Common stock, 8 per cent throughout. The amounts are: \$120,000 in 1913, \$157,482 in 1914, and \$169,976 for each succeeding year.

DEPARTMENT OF LABOUR

The surplus profits account and sinking fund reserve show the following accumulations by date:—

	Sinking fund	Surplus profits.
1912	\$ 92,713	\$385,719
1913	140,259	444,969
1914	191,407	502,263
1915	246,944	575,184
1916	304,383	688,268
1917	366,379	844,652

The above sinking fund includes \$42,289 for bond redemption annually set aside, plus the interest each year on bonds held in sinking fund.

REVENUE, 1913.

(The data supplied by this company is incomplete for 1913.)

Net profit available for dividends	\$179,250	\$221,539
Net profit	42,289	
Sinking fund		

\$221,539

\$221,539

Disposed—Net profit available for dividends	\$120,000	\$221,539
Dividend on common shares (8 per cent) ..	59,250	
Added to surplus profits account	42,289	
Sinking fund		

\$221,539

Derived.—The revenues derived from sources other than flour manufacture are not shown separately, but are relatively small.

Rate of profit—		\$221,539
Net profit available for dividends		
Capital—		
Common shares	\$1,500,000	
Surplus profits	385,719	

\$1,885,719

183,000

Less good-will

On total invested capital

(13 per cent). \$1,702,719

Profit per barrel of flour; this is not discoverable from the records of the company for 1913.

Revenue, 1914.—Note: In the calculation of dividends payable from the profits per barrel of flour, where there is a sinking fund reserve, as in this case, no deduction is made for surplus profits:—

Total sales	\$11,378,639	
Net profit available for dividends	257,064	
Net profit	\$214,775	
Sinking fund	42,289	

\$257,064

\$257,064

Disposed—Net profit available for dividends	\$157,482	
Dividends on common shares (8 per cent) ..	57,293	
Added to surplus profits account	42,289	
Sinking fund		

\$257,064

Derived.—The revenue derived from sources other than flour manufacture are not shown separately, but are relatively small.

Rate of profit—		\$257,064
Net profit available for dividends		

Capital—		
Common shares	\$2,324,700	
Surplus profits	441,069	

\$2,765,769

183,000

Less good-will

On total invested capital

(10.8 per cent) \$2,386,669

FLOUR-MILLING COMPANIES

23

REVENUE, 1914.—Continued.

Profit per barrel of flour and dividends payable thereby:—

Total net profit, \$257,064.
 Total flour and other cereals produced, 1,608,759 barrels.
 Profit per barrel, 16 cents.

After deducting sinking fund reserve, all other charges remaining the same, but making no payment to surplus profits account, the remainder, \$214,775, would amount to about 10 per cent on common stock.

During 1914, the common stock had been increased from \$1,500,000 to \$2,124,700, but dividends were paid on the increased capital for only three-fourths of the fiscal year.

REVENUE, 1915.

Total sales	\$13,874,817
Net profit available for dividends	285,486
Composed—Net profit	\$243,197
Sinking fund	42,289
	<u>\$285,486</u>

Disposed—Sinking fund	\$ 42,289
Dividends on common stock (8 per cent) ..	169,976
Added to surplus profits account	73,221
	<u>\$285,486</u>

Derived.—The revenues derived from sources other than flour manufacture are not shown separately, but are relatively small.

Rate of profit—	\$285,486
Net profit available for dividends	

Capital—	
Common stock	\$2,125,000
Surplus profits	502,260
	<u>\$2,627,260</u>
Less good-will	183,000
On total invested capital	<u>\$2,444,260</u> (11.68 per cent)

Profit per barrel of flour and dividends payable thereby:—

Total net profit, \$285,486.
 Total flour and other cereals produced, 1,610,438 barrels.
 Profit per barrel, 17.7 cents.

After deducting sinking fund reserve, all other charges remaining the same, but making no payment to the surplus profits account, the remainder, \$243,197, would amount to 11.44 per cent on common stock.

REVENUE, 1916

Total sales	\$17,783,494
Net profit available for dividends (after paying war-tax)	325,050
Composed—Net profit	\$282,761
Sinking fund reserve	42,289
War-tax	35,000
	<u>\$360,050</u>

Disposed—Dividends on common stock ..	\$169,976
Added to surplus profits account	112,785
Sinking fund	42,289
War-tax	35,000
	<u>\$360,050</u>

Derived.—Revenues derived from sources other than flour manufacture are not shown separately, but are relatively small

DEPARTMENT OF LABOUR

REVENUE, 1916—Continued.

Rate of profit—		\$ 60,070
Net profit available for dividends (before deducting war-tax) ..		
Capital—		
Common stock ..	\$2,125,000	
Surplus profits ..	575,484	
	\$2,700,484	
Less good-will ..	183,000	
On total capital invested ..	(14.3 per cent).	\$2,517,484

Profit per barrel of flour and dividends payable thereby:—

Total net profit less war-tax, \$325,050.
Total flour and cereals produced, 2,214,779 barrels
Profit per barrel, 14.68 cents.

After deducting sinking fund, all other charges remaining the same, but making no payment to surplus profits account, the remainder, \$282,761, would amount to 13.3 per cent on common stock.

REVENUE, 1917.

Total sales ..	\$25,910,312
Net profit available for dividends (after paying war-tax) ..	368,648
Composed—Net profit ..	\$326,359
Sinking fund reserve ..	42,284
War-tax ..	45,000
	\$413,648
Disposed—Dividends on common stock (8 per cent) ..	\$169,976
Added to surplus profits account ..	156,383
Sinking fund ..	42,289
War-tax ..	45,000
	\$413,648

Derived—Revenues derived from sources other than flour manufactured are not shown separately, but they are relatively small.

Rate of profit—		\$413,648
Net profit available for dividends (before paying war-tax) ..		
Capital—Common stock ..	\$2,125,000	
Surplus profits ..	688,268	
	\$2,813,268	
Less good-will ..	183,000	
On total invested capital ..	(15.73 per cent).	\$2,630,268

Profit per barrel and dividends payable thereby:—

Total net profit after payment of war-tax, \$368,648.
Total flour and other cereals produced, 1,955,320 barrels
Profit per barrel, 18.85 cents.

After deducting sinking fund, all other charges remaining the same, but making no payment to surplus profits account, the remainder, \$326,359, would amount to 15.36 per cent on common stock.

The depreciation account in 1916 and 1917 is larger than the normal depreciation reserve, which is about two per cent, but is smaller than that allowable, namely, 5 per cent. The depreciation reserves were \$92,000 in 1916, and \$96,000 in 1917, approximately, respectively, about 3.4 per cent in 1916 and 3.5 per cent of the value of the plant in 1917.

SUMMARY OF WESTERN CANADA FLOUR MILLS COMPANY.

In actual production for the year 1917, this company is the fourth largest in Canada, although in total sales it is the second largest. The number of barrels of flour produced in 1917 was approximately, 1,960,000 as compared with 2,100,000 produced by the Lake of the Woods Milling Company, and 3,550,000 produced by the Ogilvie Flour Mills Company. The average daily capacity of its mills is 8,900 barrels as compared

with 14,500 of the Ogilvie Flour Mills Company. Increase in production since the war has not been very considerable. The number of barrels of flour produced in 1914 was approximately 1,600,000; in 1917, it was 1,900,000. Total sales have more than doubled since 1914. This is due largely to the rise in the price of flour. Total sales in 1914 were approximately \$11,400,000; in 1917, they were \$26,000,000, approximately.

The capitalization of this company is normal. Up to the year 1914, the common stock amounted to \$1,500,000 (it is now \$2,124,700). Of the present stock, \$1,429,700 less \$183,000 good-will, was issued for cash. The remainder, \$695,000, was issued for assets. There has been no attempt to reduce the good-will account. The original amount, which is exactly \$182,955, still stands. Bonds have been issued amounting to \$1,845,000. An annual sinking fund approximately \$42,000 plus interest takes care of these.

In addition to an ample annual sinking fund reserve, the surplus profits account has increased from approximately \$445,000 in 1913 to \$845,000 in 1917. Sufficient provision is made for depreciation. Dividends have not been skimmed. Eight per cent on common stock has been paid throughout. Larger payments were made to the surplus profits account in 1916 and 1917 than in any years since 1911. The profits per barrel of flour were 16 cents in 1914, 17.7 cents in 1915, 14.68 cents in 1916 and 18.85 cents in 1917. This includes, as shown above, certain profits from other sources and is higher than the actual profits per barrel of flour would be. It is observed that the profit per barrel of flour has not greatly increased since 1914. Production has increased. Sixteen cents a barrel profit in 1914 paid ample dividends, a sinking fund, and a very satisfactory reserve to the surplus profits account. Fifteen cents a barrel profit in 1916 enabled this company to pay not only a sinking fund, a sufficient depreciation reserve, a war tax of \$35,000 but a reserve to the surplus profit account larger than that of any previous year. Nevertheless, the profit per barrel still increased in 1917. And if it not increased, in fact had it been less, and production been greater, this company might have made a still larger reserve to the surplus profit account in 1917.

MAPLE LEAF MILLING COMPANY.

Profits per barrel of flour, as shown by the Maple Leaf Milling Company are seriously affected in the years 1915 and 1917 by large profits from dealings in wheat. It was not possible, without going through thousands of records, to arrive at the profits from wheat and flour separately, although it was desirable that the profits from these sources should be separated for the years mentioned. It was because of the unprecedented profit from option trading in wheat in 1915 that the profit per barrel of flour was raised to about 50 cents as compared with 11 cents for 1914. In the year 1917, this company was again fortunate, as were many of the other large milling companies, in deriving a very large revenue from dealings in wheat. Once more this acted upon the profit per barrel of flour, which is shown for this year to be about 30 cents. Had the profits from wheat dealings been deducted, it is difficult to say exactly how much the profit per barrel would have been reduced. Judging by the operations of other companies, and the former operations of this company, it would probably have been reduced to about 18 or 19 cents per barrel.

CAPITALIZATION.

	Authorized.	Issued.	Fully paid
Preferred shares	\$2,500,000	\$2,500,000	\$2,500,000
Common shares	2,500,000	2,500,000	2,500,000
Bonds and debentures	None		

The capitalization of this company is made up:—

Preferred shares	\$2,500,000
Common shares	2,500,000
	Assets.
Issued for	\$3,770,524
	Goodwill.
	\$229,661

Twenty-five per cent common stock was issued as a bonus with preferred stock.

Dividends.—Preferred stock 7 per cent throughout. This is cumulative and amounts to \$170,000 per year.

Common stock: No dividend was paid on common stock until 1916.

1916 ..	(3 per cent) ..	\$ 75,000
1917 ..	(8½ " " 1) ..	212,500

The surplus profits and contingent accounts show the following accumulations by date:—

	Contingent account	Surplus profits
1912 ..		\$ 111,095
1913 ..	\$ 10,938	241,884
1914 ..	3,275	333,968
1915 ..	226,722	1,073,406
1916 ..	230,491	1,210,760
1917 ..	361,007	1,192,332

There is in addition to this a suspense account of \$15,000 in 1917.

REVENUE, 1913

Total sales ..	(Data not available)
Net profit available for dividends (after making a depreciation reserve, approximately 2 per cent on value of plant, of \$100,000) ..	\$205,790
Net profit available for dividends, as shown by company—no depreciation reserve made ..	305,790
Disposed—Dividends on preferred shares (7 per cent) ..	\$175,000
Credited to surplus account ..	130,790
	<u>\$305,790</u>
Derived—Data not satisfactory	
Rate of profit ..	
Net profit available for dividends (after making depreciation reserve of approximately 2 per cent) ..	\$205,790
Capital—Preferred and common stock ..	\$3,770,524
Surplus profits ..	111,098
On total invested capital ..	(5.3 per cent) .. <u>\$3,881,619</u>

Profit per barrel—The figure submitted for the profit per barrel of flour for the year 1913 does not account for depreciation. This figure, submitted by the company, is 17½ cents, but after 2 per cent depreciation charge is made, the profit per barrel is reduced to 12 cents.

- Total net profit (after deduction of depreciation reserve), \$205,790.
- Total flour and other cereals sold, 1,721,176 barrels.
- Profit per barrel, 12 cents. (This profit per barrel includes other minor revenues not distinguished from revenue from flour manufacture.)

REVENUE, 1914.

Total sales ..	\$7,382,423
Net profit available for dividends (after making a depreciation reserve, approximately 2 per cent on value of plant, of \$100,000) ..	\$167,083
Net profit available for dividends, as shown by company—no depreciation reserve made ..	\$267,083
Disposed—Dividends on preferred shares (7 per cent) ..	\$175,000
Credited to surplus account ..	92,083
	<u>\$267,083</u>
Derived—Data not satisfactory.	
Rate of profit—	
Net profit available for dividends (after making approximately 2 per cent depreciation reserve) ..	\$167,083
Capital—Preferred and common stock ..	\$3,770,524
Surplus profits ..	241,885
On total invested capital ..	(4.16 per cent) .. <u>\$4,012,409</u>

REVENUE, 1914.—Continued.

Profit per barrel

Total net profit (after deduction of depreciation reserve, \$100,000). \$167,083
 Total flour and other cereals produced, 1,502,222 barrels
 Profit per barrel, 11.2 cents. (This profit per barrel includes other minor revenue not distinguished from revenue from flour manufacture.)

REVENUE, 1915.

Total sales	\$11,581,554
Net profit available for dividends (after making a depreciation reserve, approximately 2 per cent on value of plant, of \$100,000)	\$975,438
Composed—Profit from trading	\$1,204,680
Less depreciation reserve (\$100,000) and less bank interest (\$173,560)	273,560
	\$931,120
Net profit from trading	\$931,120
Profit from other sources	44,318
	\$975,438
Net profit available for dividends, as shown by company—no depreciation reserve made	\$1,075,438
Disposed—Dividends on preferred shares	\$175,000
Credited to surplus account	700,438
Credited to contingent account	200,000
	\$1,075,438
Derived—Data not satisfactory	
Rate of profit	
Net profit available for dividends (after making approximately 2 per cent depreciation reserve)	\$975,438
Capital—Preferred and common stock	\$3,770,324
Surplus profits	333,968
On total invested capital	23.76 per cent
	\$4,104,492
Profit per barrel—	
Total net trading profit (after deduction of depreciation reserve)	\$975,438
Less profit from sources other than trading	44,318
	\$931,120
Net profit from flour, etc.	\$931,120

Total flour and other cereals sold, 1,839,398 barrels.
 Profit per barrel, 50.6 cents. (This profit per barrel includes large profits from wheat dealings not distinguished separately.)

NOTE.—It is obvious that the profit on a fairly staple commodity such as flour would not vary from \$167,000 in 1914 to \$930,000 in 1915. The source of the unprecedented profit in 1915 was highly successful dealings in wheat.

REVENUE, 1916.

Total sales	\$12,963,906
Net profit available for dividends (after making a depreciation reserve, approximately 2 per cent on value of plant, of \$100,000)	\$356,355
Composed—Profits from trading	\$525,940
Less depreciation reserve (\$100,000) and less bank interest (\$104,171)	204,171
	\$321,769
Net profit from trading	\$321,769
from other sources	34,586
	\$356,355
Net profit available for dividends, as shown by company—no depreciation reserve made	\$456,355
Disposed—Dividends on preferred shares..(7 per cent).	\$175,000
common stock...(3 per cent).	75,000
Credited to surplus account	176,355
contingent account	30,000
	\$456,355

Derived—The sources of profit during 1916 were almost entirely from flour.

DEPARTMENT OF LABOUR

REVENUE, 1916.—Continued

Rate of profit	
Net profit available for dividends (after making a depreciation reserve of approximately 2 per cent)	\$458,400
Capital—Preferred and common stock	\$3,770,524
Surplus profits	1,034,406
On total invested capital (7.4 per cent).	\$4,804,929
Profit per barrel	
Total net profit after deduction of depreciation	
Less profit from sources other than trading	\$4,586
Net profit from flour, etc.	\$321,769
Total flour and other cereals sold, 1,749,255 barrels	
Profit per barrel, 18.4 cents	

Note.—No war tax was paid this year.

REVENUE, 1917

Total sales	\$14,507,740
Net profit available for dividends (after making a depreciation reserve, approximately 5 per cent on the value of the plant of \$250,000)	\$629,072
Composed—Profits from trading	\$999,950
Less depreciation reserve (\$250,000) and less bank interest (\$159,573)	409,573
Net profit from trading	\$590,377
from other sources	38,695
	\$629,072
Disposed—Dividends on preferred shares . . (7 per cent).	\$175,000
common stock . . (8½ per cent).	212,500
Credited to surplus account	191,572
contingent account	50,000
	\$629,072

Derived.—Data not satisfactory

NOTE.—A depreciation reserve was set aside by the company this year for the first time. It was made at about 5 per cent, and amounts to \$150,000 more than that calculated for the purposes of this report, for previous years.

Rate of profit	
Net profit available for dividends	\$629,072
Capital—Preferred and common stock	\$3,770,524
Surplus profit	1,210,760
On total invested capital (12.63 per cent).	\$4,981,284
Profit per barrel	
Net profit (after deduction of depreciation reserve)	\$629,072
Less profit from sources other than trading	38,695
Net profit from flour, etc.	\$590,377
Total flour and other cereals produced, 1,971,498 barrels	
Profit per barrel, 30.45 cents. (This profit per barrel includes large profits from wheat dealings not distinguished separately.)	

NOTE.—Subsequently \$65,116 was paid in war tax on the profits for the fiscal year 1917.

SUMMARY MAPLE LEAF MILLING COMPANY.

In point of production, this company was the third largest in Canada in 1917. The number of barrels of flour produced was approximately 1,970,000. The total sales of this company for the same year afford an interesting illustration of the spectacular rise in the price of flour in the spring and summer of 1917. The Western Canada Flour Mills Company sold about 15,000 barrels less than the Maple Leaf Milling

Company and its total receipts in dollars for the year ending August 31, 1917, amounted to about \$26,000,000. The total receipts from the Maple Leaf Milling Company's sales in the year ending March 31, 1917, were about \$14,500,000. This difference in receipts is due to the fact that the sales of the Maple Leaf Milling Company covered the year March 31, 1916, to March 31, 1917; those of the Western Flour Mills Company covered the year August 31, 1916, to August 31, 1917.

In the capacity of its mills, the Maple Leaf Milling Company also ranks as the third largest in Canada. The daily maximum capacity is 14,400 barrels as compared with 14,500 barrels of the Lake of the Woods Milling Company and 17,000 barrels of the Ogilvie Company. Its production of flour has, however, not greatly increased since the war. In 1913, 1,700,000 barrels were produced; in 1914, this dropped to about 1,300,000 barrels. Total sales in 1914 amounted to approximately \$7,400,000; in 1917, this amount was about doubled.

The total stock of this company is \$5,000,000: \$2,500,000 of preferred stock and \$2,500,000 of common stock. Of this amount, \$3,770,524 has been paid in assets. In the calculations of net capital above \$3,770,524 is taken as net capital. The surplus profits account is added to this in calculating the total invested capital. The contingent account has not been added. Until the year 1915, the contingent account was not considerable. Had it been added and had net profits been calculated on total invested capital as above, plus the contingent account, the rate of profit in 1916 would have been 7.1 per cent instead of 7.4 per cent and, in 1917, it would have been 12.1 per cent instead of 12.63 per cent.

The surplus profit account increased from \$241,884 in 1913 to \$1,402,332 in 1917. The contingent account increased from \$10,038 in 1913 to \$361,007 in 1917. (Thus, total surplus profits amounted in 1917 to \$1,763,339.) No depreciation account existed previous to 1917. In that year, \$250,000 was set aside. Seven per cent dividends have been paid on preferred shares throughout. No dividends were paid on common stock until 1916, when three per cent was declared. In 1917, 8½ per cent dividends were paid on common stock. The reason that no dividends were paid on common shares previously was no doubt due to the fact that they consisted, to the extent of about fifty per cent, of "watered stock" part of which amount was issued as bonus to purchasers of preferred stock and \$230,000 represents good-will directly.

The tremendous increase in the surplus profits account of from \$251,922 in 1913, to \$1,763,339, in 1917, should rightly be decreased by \$100,000 a year for depreciation, which would leave about \$1,400,000. But, even after making that reduction, the increase in the account would still be very large indeed. The source of such abnormal profits was the huge revenue from dealings in wheat in 1915 and a substantial profit from the same source in 1917.

NOTE.—Subsequently \$65,116 was paid in war tax on profits for fiscal year 1917.

The profit per barrel of flour as shown by this company is of course affected by the large revenues from wheat in 1915 and 1917 above referred to. It is for this reason that the profit jumps from 11.2 cents per barrel in 1914 to 50.56 cents per barrel in 1915; from 18.4 cents per barrel in 1916 to 30.45 cents per barrel in 1917. Although, as explained previously, the information regarding the actual amount of revenue from wheat dealings in 1915 and 1917 is not available, it is very probable that the profit from flour alone in 1915 and 1917 was below 20 cents per barrel. Figures submitted by the company for this calculation were incorrect for the year 1913 to 1917 in that no depreciation reserve had been made. In this report, a straight depreciation reserve of \$100,000 per annum until 1917 has been allowed. This is approximately two per cent of the value of the plant which was the percentage of depreciation reserve normally shown by the milling companies until 1917.

DEPARTMENT OF LABOUR

ST. LAWRENCE FLOUR MILLS CO.

Profits per barrel of flour, as shown by the St. Lawrence Flour Mills Company, are affected by option trading in wheat, particularly in the years 1913 and 1917, although the year 1916 shows the advantage accruing to this company from the rise on the price of wheat. In 1913, a serious loss took place; in 1917, a considerable profit was made. Nevertheless, from the years 1914 to 1917, the profits per barrel of flour as shown in the report, are substantially correct. In 1916 and 1917, they are shown as higher than if profits from other sources had been deducted.

CAPITALIZATION

	Authorized.	Issued.	Fully paid
Preferred shares	\$ 600,000	\$ 575,000	\$ 575,000
Common shares	1,200,000	1,200,000	1,200,000
Bonds and debentures	300,000	300,000	300,000
The bonds are at present reduced under the sinking fund to \$254,000			
The capitalization of this company is made up:			
	Cash	Assets.	Goodwill
Preferred shares issued for	\$ 575,000		
Common " " "		\$150,000	\$1,050,000
Bonds " " "	\$ 300,000		

		Per cent	
On preferred stocks	1913	3½	\$18,375
" " "	1914	Nil	
" " "	1915	21	\$59,581
" " "	1916	7	40,215
" " "	1917	7	40,224

*Bonus, preferred shares.

The preferred shares increased from \$525,000 in 1914 to \$574,500 in 1915 and \$575,000 in 1917.

On common stock no dividend has been paid.

The surplus profits account and sinking fund reserve show the following accumulations by dates:—

	Sinking fund.	Surplus profits
1912		\$13,007
1913		— 61,834 (debit)
1914	\$10,000	21,296
1915	20,500	— 21,365 (debit)
1916	31,500	51,116
1917	46,000	138,157

REVENUE, 1913

Total sales	\$2,375,072
Net loss (including depreciation, reserve 2 per cent, value of establishments, \$8,513)	\$64,978
Composed—Milling loss	\$37,715
Bond interest and discount	18,750
Depreciation reserve at 2 per cent on value of buildings, etc.—value of property	8,513
	\$64,978
Loss per barrel. Total flour produced, 411,833 barrels	
Loss per barrel, 15.7½ cents	
Capital—Preferred shares	\$ 525,000
Common shares	1,200,000
Surplus profits	13,007
	\$1,738,007
Less good-will	1,050,000
	\$688,007

FLOUR-MILLING COMPANIES

31

REVENUE, 1914

Total sales	\$3,129,853
Net profit available for dividends (after making provision for depreciation, 2 per cent on value of establishment, \$8,744) ..	\$84,385
Net profit	\$74,385
Sinking fund	10,000
	\$84,385
Net profit (available for dividends) as shown by company—no provision for depreciation	\$93,129
Disposed—Sinking fund	\$10,000
Added to surplus profits account	83,129
	\$93,129

No dividends were paid this year, \$93,129 wiped out deficit of \$61,883 of surplus profits account and added \$21,296 to credit of this account.
Derived—Sources of revenue other than flour manufacture negligible.

Rate of profit—	
Net profit available for dividends	\$74,385
Sinking fund	10,000
Total net profit	\$84,385
Capital—Preferred shares	\$ 525,000
Common shares	1,200,000
	\$1,725,000
Less good-will	1,050,000
Less surplus profit debit	61,834
	\$613,116
On total net invested capital	(14 per cent). \$613,116

Profit per barrel of flour and dividends on common stock payable thereby (after deducting depreciation reserve as estimated above)

Total net profit from flour (after deducting depreciation reserve), \$84,385
Total flour and other cereals produced, 565,872 barrels
Profit per barrel, 14.9 cents

Dividend on preferred shares payable thereby all other charges remaining same after deducting sinking fund reserve, but making no payment to surplus profits, the remainder, \$74,385, would amount to 14.17 per cent on preferred shares.

REVENUE, 1915

Total sales	\$4,277,500
Net profit available for dividends (after making provision for depreciation, 2 per cent of value of establishment, \$8,804) ..	\$72,751
Net profit	\$62,251
Sinking fund	10,500
	\$72,751
Net profit (available for dividends) as shown by company—no provision for depreciation	\$81,555
Disposed—Sinking fund	\$10,500
Preferred shares, dividends	71,055
	\$81,555

The total dividends paid on preferred shares this year amounted to 21 per cent, i.e., \$113,716. Of this \$71,055 was contributed by the year's profits; \$21,296 from the surplus profits of the previous year, and the surplus profits account was debited \$21,365 for the remainder.

DEPARTMENT OF LABOUR

REVENUE, 1917.—*Continued*

Derived.—Sources of revenue other than that from manufacture of flour are negligible.
Rate of profit

Net profit available for dividends (after making provision for depreciation 2 per cent on value of establishment)	\$114,827
Sinking fund	11,000
Total net profit	\$125,827
Capital—Preferred shares	\$ 574,500
Common stock	1,200,000
Surplus profits	21,365
	\$1,795,865
Less—Good-will	100,000
	\$1,695,865
On total invested capital (10.45 per cent).	\$616,296

Profit per barrel of flour and dividend on common stock payable thereby (after deducting depreciation reserve)

Total net profit from flour (after deducting depreciation reserve)	\$125,827
Total flour and other cereals produced	651,186 barrels
Profit per barrel	10.39 cents

Dividend on preferred shares payable thereby all other charges remaining the same, deducting reserve for sinking fund, but paying nothing to surplus profits account, the remainder \$62,251 would amount to 11.86 per cent on preferred shares.

REVENUE, 1916

Total sales	\$4,246,976
Net profit available for dividends (after making provision for depreciation, 2 per cent of value of establishments, \$8,870)	\$114,827
Net profit	\$103,827
Sinking fund	11,000
	\$114,827
Net profit available for dividends as shown by company—no provision for depreciation	\$123,697
Disposed—Sinking fund	\$11,000
Preferred dividends (18.07 per cent)	40,215
Added to surplus profits account	72,482
	\$123,697

This addition to the surplus profits account covered a debit of \$21,365 and left \$51,117 to the credit of this account at the end of 1916.

Derived.—Sources of revenue other than that from manufacture of flour are negligible.

Rate of profit	
Net profit available for dividends	\$114,827
Capital—Preferred shares	\$ 574,500
Common stock	1,200,000
	\$1,774,500
Less surplus profits debit	21,365
Less good-will	1,050,000
On total invested capital (16.3 per cent)	\$703,135

Profit per barrel of flour and dividends on common stock payable thereby (after deducting depreciation reserve)

Total net profit	\$114,827
Total flour and other cereals produced	654,218 barrels
Profit per barrel	17.55 cents

After deducting the Sinking Fund reserve but no reserve to Surplus Profits, the remainder, \$103,827, would pay 18.07 per cent on preferred shares.

REVENUE, 1917	
Total sales	\$6,682,450
Net profit available for dividends (after making provision for depreciation, 5 per cent value of establishment, \$22,265, and after paying war-tax)	\$119,499
Composed—Net profit (before paying war-tax and exclusive of depreciation reserve)	\$114,400
Sinking fund	14,000
	\$128,400
Net profit available for dividends as shown by company—no provision for depreciation	\$151,198
Disposed—Sinking fund	\$14,500
War-tax	9,443
Preferred dividends	40,224
Added to surplus profits	1
	\$151,198
Derived—Source of revenue other than from flour are negligible	
State of profits	
Net profit available for dividends	\$128,400
Capital—Preferred shares	\$575,000
Common stock	1,200,000
Surplus profits	51,116
	\$1,826,116
Less good-will	1,000,000
	\$826,116

Profit per barrel of flour and dividends on preferred stock payable thereby—

Net profit, after paying war-tax, \$119,499
 Total flour and other cereals produced, 707,825 barrels
 Profit per barrel, 16

After paying sinking fund and all other charges remaining the same, but making no reserve to surplus profits, remainder, \$110,000 would amount to 18.26 per cent on preferred shares.

SUMMARY OF ST. LAWRENCE FLOUR MILLS COMPANY.

The total number of barrels of flour produced by this company in 1917 was approximately 700,000. There has been a considerable and steady increase in the production of flour since 1913, when the total number of barrels produced was 411,833. The total revenue from sales in 1917 was \$6,682,450 as compared with \$2,375,000 in 1913.

The capital of this company consists of preferred shares amounting to \$575,000 and common shares amounting to \$1,200,000. Practically all the former has been paid for in cash. Of the latter, \$150,000 was paid for in assets. The remainder \$1,050,000, is good-will. Up to the end of the fiscal year 1917, no dividends had been paid on the common stock. Should a dividend be declared on the common stock, it is obvious that it will be paid not upon bona fide but upon "watered" stock. Bonds have been issued and fully paid to the extent of \$300,000, reduced by the sinking fund to \$254,000 in 1917.

From a debit of \$61,000 in 1913, the surplus profit account of this company has increased to a credit of \$138,000 in 1917. The largest addition to the surplus profit account was made in 1917. The amount now standing to the credit of the surplus profit account is not abnormal. It will, however, be observed that, in the calculation of dividends payable from profits per barrel of flour, the dividends are stated as payable on preferred shares. This is for two reasons: (1) because this company had not, up to 1917, paid any dividend on its common stock and (2) only a very small amount of its common stock has been paid for in cash or assets.

THE ROBIN HOOD MILLING COMPANY.

The capitalization of this company consists of \$200,000 common stock. This is, however, only a nominal capitalization, representing a loan of the International Milling Company which operates this concern and owns all the capital.

CAPITALIZATION.

	Authorized.	Issued.	Fully paid.
Common stock	\$200,000	\$200,000	\$200,000

This was issued for assets amounting to \$1,277,000. Rent of approximately \$95,000 a year is paid the International Milling Company by the Robin Hood Milling Company. This covers depreciation, together with other rental costs.

Dividends: These are all on common stock and were:—1913, nil; \$160,000 in 1914 (80 per cent.); \$200,000 in 1915 (100 per cent); and \$130,000 in 1916, (65 per cent). No dividend was paid in 1917.

The surplus profits account shows the following accumulations by date:—

1912	\$ 21,748
1913	257,493
1914	307,068
1915	273,844
1916	223,685
1917	317,013

In addition there were made the following war tax reserves: \$63,000 in 1916; \$100,000 in 1917.

In calculating the rate of profit the net investment is taken as \$1,277,000 plus amount at credit of surplus profits account at the beginning of the year.

The net profits for each year were:

In 1913 the net profit from flour was \$127,016.

The total number of barrels of flour produced was 513,380.

The net profit per barrel was 24.7 cents.

The total net profit was \$235,745, or 18 per cent on total investment.

In 1914 the net profit from flour was \$123,014.

The total number of barrels of flour produced was 552,358.

The profit per barrel was 22.3 cents.

The total net profit was \$506,575, or about 13½ per cent on total investment.

In 1915 the net profit from flour was \$43,283.

The total number of barrels of flour produced was 464,782.

The profit per barrel was 9.3 cents.

The total net profit was \$169,776, or about 10½ per cent on total investment.

In 1916 the net profit from flour was \$15,725.

The total number of barrels of flour produced was 795,581.

The profit per barrel was about 2 cents.

The total net profit was \$142,837, or about 9½ per cent on total investment.

In 1917 the net loss from flour was \$7,957.

The total number of barrels of flour produced was approximately 772,500.

The total loss per barrel of flour was slightly over 1 per cent.

The net profit was \$193,328, or about 13 per cent on total investment.

SUMMARY AND CONCLUSIONS.

I

The above report shows that the profits of the large milling companies have tremendously increased since the war. The increased profits have been disposed of in various ways:

NOTE.—The figures below are given in most cases to the nearest thousand.

(a) In some cases, as with the Maple Leaf Milling Company, dividends have been paid on common stock for the first time. In other cases, already substantial dividends have been increased, as in the case of the Ogilvie Flour Mills Company. The regular dividends on common stock of this company up to 1915 were 8 per cent; in 1916, they were increased to 12 per cent; and, in 1917, to 25 per cent.

(b) The surplus profits account has been greatly increased. In 1913, the surplus profits account of the Maple Leaf Milling Company was about \$250,000. In 1917, it was over \$1,760,000. (Subsequently \$65,116 war-tax was paid on profits for the fiscal year 1917). The surplus profit account of the Western Canada Flour Mills Company was \$445,000 in 1913; in 1917, it was \$845,000. The latter is in addition to a sinking fund. The surplus profits account of the St. Lawrence Flour Mills Company has increased from a debit of \$62,000 in 1913 to a credit of \$138,000 in 1917, in addition to a sinking fund. The surplus profits account of the Robin Hood Mills in 1913 was \$257,000; in 1917 it was \$317,000 in addition to an accumulated reserve for war-tax of \$163,000; and very substantial dividends were paid during the period. The surplus profits account of the Ogilvie Flour Mills in 1913 was \$473,600; in 1917 it was \$2,690,000, in addition to the immense reserves of \$380,000 for war tax in 1916 and of \$750,000 for war-tax in 1917. The surplus profits account of the Lake of the Woods Milling Company has materially increased. In 1913, it was \$853,000; in 1917, it was \$832,000 plus \$392,000 at the credit of the surplus profits account of the Keewatin Flour Mills which the Lake of the Woods Company entirely owns. This is in addition to the redemption of Keewatin bonds to the extent of \$350,000, in 1916 and the redemption of bonds of the Lake of the Woods Company to the extent of \$200,000 in 1917 (and redemption of good-will account \$250,000). Eight per cent dividends on common stock were paid throughout, as well as the regular 7 per cent on preferred shares.

In the years 1916 and 1917, substantial war-tax reserves were set aside by the companies making the largest profits. The amount of this is shown individually for each company. Contingent accounts have been opened up. As these, however, are really another form of surplus profits account, they are reckoned as such in the above calculations. Depreciation accounts of unprecedented amounts were set aside in 1917. But it may be said that, generally speaking, the depreciation reserve set aside by the various companies, which amounted on an average to about 2 per cent, was too small. This was mitigated, however, by the fact that the surplus profits account was able, in most cases, to take care of depreciation. In 1917, generally, the depreciation account was increased from about 2 to 5 per cent. In some cases it was not so increased. Some companies made no depreciation reserve until 1917. The unusually large depreciation reserve made by the majority of the companies in 1917 very greatly decreased their apparent profits. But, with increased production in 1916 and 1917, a larger reserve for depreciation than in previous years was necessary.

Except in the case of the Western Canada Flour Mills Company and the St. Lawrence Flour Mills Company, the surplus profit account does not provide for sinking funds.

II.

Production of flour by the nine largest milling companies in Canada has greatly increased since 1914. This production in 1914 was approximately ten million barrels; in 1917, it was approximately fourteen million barrels. The largest flour milling com-

pany in Canada, the Ogilvie Flour Mills Company, produced in 1914 about one-quarter of the total amount produced by these companies, and, in 1917 its production still held about the same proportion to the total produced by these nine companies. But the Ogilvie Flour Mills Company is not, by any means, in a position to monopolize the manufacture of flour, as there are three other companies of the first rank producing over one million barrels of flour per year, and five companies, of the second rank, producing between 500,000 and 1,000,000 barrels of flour per year. Nevertheless, the annual increase in production by this company has been so much greater than that of any other company that it holds a towering position among its rivals. Its production for 1917 was about one and one-half times greater than that of its largest competitor, and the receipts from sales in dollars were about twice as large as those of any other company.

III.

The source of increased profits made by the various companies is due to the following causes: (a) Increase in sales, (b) increase in profit per barrel of flour; and (c) large revenues from dealings in wheat in the years 1915, 1916, and 1917.

The increase in total receipts from sales annually is very striking. In nearly every case it has been doubled, and in some cases trebled. The increase in the number of barrels sold is also considerable, and the price of flour has almost doubled since 1914. The profit per barrel of flour made by the various companies between 1914 and 1917 did increase. It will be observed above that the profits per barrel of flour in 1914 were as follows: Ogilvie Flour Mills Company, 15 cents; Lake of the Woods Milling Company, 13 cents; St. Lawrence Flour Mills Company, 15 cents; Western Canada Flour Mills Company, 16 cents; Maple Leaf Milling Company, 11 cents; Robin Hood Milling Company, 22 cents. In 1917, the profits per barrel were: Ogilvie Flour Mills Company, 20 cents; Lake of the Woods Milling Company, 20 cents; St. Lawrence Flour Mills Company, 17 cents; Western Canada Flour Mills Company, 19 cents; Maple Leaf Milling Company, 30 cents; Robin Hood Milling Company made a loss of 1 cent per barrel of flour. The Robin Hood Milling Company netted on all its operations a profit of 25 cents per barrel in 1917, but the sources of this profit were wheat dealings, elevator earnings, etc., and were not from flour. The increased profit of the Maple Leaf Milling Company was due largely to dealings in wheat.

IV.

Contrary to general belief, the profit per barrel of flour made by the various milling companies is comparatively very small. Eighteen to twenty cents per barrel seems an extremely small amount for milling companies to make, considering the high price of flour at the present time. Nevertheless, the net revenues from such profits per barrel have been sufficient to pile up immense surplus profit accounts, redeem bonds, and pay dividends either larger than have hitherto been paid, or on stock which received no dividends previous to the last few years.

V.

The above report abundantly shows that it has not been possible to reach the profit of the milling companies by setting a limit on the profit of flour per barrel. With increased production, even were the profits per barrel of flour limited to, say, fifteen cents, still ample dividends might be paid and reserves set aside. With the fixing of the price of wheat, the source of revenue from wheat dealings, which largely contributed to the dividends of the milling companies in 1915 and 1917, particularly, will be cut off.

To show the profits and dividends payable from flour manufacture alone, the reports of the companies have been analyzed in detail. Profits from flour alone have in most cases been very satisfactory, and allowed ample and sufficient reserves. In the case of three or four of the largest companies, the profit would even be abnormal. Net profit on the turn-over has been in most cases between two and three per cent. It has been shown that this bears little relation to the rate of profit on the total invested capital. It is clear, therefore, that the only way to reach the profits of the milling companies is to increase the tax on the net profits on total investment for the year.

The reports of all the different classes of milling companies, considered together, show that the smaller mills, making from 100,000 to 500,000 barrels of flour a year, could possibly exist making a moderate revenue from a profit of 25 cents a barrel of flour; that the smaller mills, making less than 100,000 barrels a year, would find difficulty in surviving on this profit, whereas the nine largest companies can, on less than this profit, make a net profit yearly of unprecedented amounts. This is due to the increase in production.

The increased profits of the largest companies is not due directly to increase in profit per barrel of flour because 20 cents profit per barrel of flour, when a barrel sells at \$11 wholesale is a smaller rate of profit than 15 cents profit per barrel, when flour sells at \$4 per barrel. As a matter of fact, the rate of profit on the annual turn-over in some cases has decreased as, for example, that of the Lake of the Woods Milling Company, although the net profit on investment has increased.

It is therefore evident that the profits of the large flour milling companies can be reached only by a Business Profits War Tax.

B. J. MCKENNA,
(Mrs. GEORGE HAMBLETON.)